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United Nations Habitat and Human Settlements Foundation

Financial report and audited financial statements

for the biennium ended 31 December 2001 and

Report of the Board of Auditors

General Assembly
Official Records
Fifty-seventh Session
Supplement No. 5H (A/57/5/Add.8)

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Report of the Board of Auditors

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Note

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Letters of transmittal

[31 March 2002]

I have the honour to transmit the financial report and accounts of the United Nations Habitat and Human Settlements Foundation, including associated trust funds and other related accounts for the biennium 2000-2001 ended 31 December 2001, which I hereby approve.

The financial statements of the United Nations Habitat and Human Settlements Foundation for the biennium 2000-2001 ended 31 December 2001 have been prepared in accordance with financial rule 111.4 of the United Nations.

The summary of significant accounting policies applied in the preparation of these statements is included as notes to the financial statements. These notes provide additional information on and clarifications of the financial activities undertaken by the Organization during the period covered by these statements for which the Secretary-General has administrative responsibility.

Copies of these statements are made available to both the Advisory Committee on Administrative and Budgetary Questions and the Board of Auditors.

(*Signed*) Anna Kajumulo **Tibaijuka**
Executive Director
United Nations Centre for Human Settlements Programme

Chairman, Board of Auditors
United Nations Headquarters
New York

[27 June 2002]

I have the honour to transmit to you the financial statements of the United Nations Habitat and Human Settlements Foundation, including associated trust funds and other related accounts, for the biennium 2000-2001 ended 31 December 2001, which were submitted by the Executive Director. These statements have been examined and include the audit opinion of the Board of Auditors.

In addition, I have the honour to present the report of the Board of Auditors with respect to the above accounts.

(*Signed*) Shauket A. **Fakie**
Auditor-General of the Republic of South Africa
and Chairman
United Nations Board of Auditors

The President of the General Assembly
of the United Nations
New York

Chapter I

Financial report for the biennium ended 31 December 2001

A. Introduction

1. The Executive Director has the honour to submit herewith the financial report together with the financial statements of the United Nations Habitat and Human Settlements Foundation, including associated trust funds and other related accounts, for the biennium ended 31 December 2001. The accounts were submitted to the Board of Auditors on 31 March 2002.

2. As prescribed by financial regulation 2.1, the financial period of the Organization comprises two consecutive calendar years, the first one of which shall be an even year. The Board of Auditors conducted an interim audit on these accounts and did not report to the Advisory Committee on Administrative and Budgetary Questions any situations that should be brought to the attention of Member States.

3. Comparative figures for the biennium 1998-1999 have been reflected in the financial statements. The length of the financial report has been kept to a minimum, in accordance with United Nations guidelines.

4. The financial statements and schedules, as well as the notes thereto, are an integral part of the financial report.

B. Level of appropriations, allocations/allotments, expenditures and commitments

5. The Commission on Human Settlements, in its decision 17/20 of 14 May 1999, approved for the biennium 2000-2001 expenditures for the Foundation of $23,019,600.

6. Total allocations/allotments and expenditures for the biennium 2000-2001 were as follows (in United States dollars):

	Allocation	*Expenditure*	*Unexpended allocation*
Project activities	20 724 732	15 669 986	5 054 746
Programme and programme support cost activities	7 919 600	6 909 281	1 010 319
Total	**28 644 332**	**22 579 267**	**6 065 065**

Chapter II
Report of the Board of Auditors

Summary

The Board of Auditors has reviewed the United Nations Human Settlements Programme (UN-Habitat), formerly the United Nations Centre for Human Settlements (Habitat), at its headquarters in Nairobi and at the office in northern Iraq. The Board also audited the financial statements of the United Nations Habitat and Human Settlements Foundation for the biennium ended 31 December 2001. The United Nations Human Settlements Programme manages 32 funds, of which only 22 are included in the financial statements of the United Nations Habitat and Human Settlements Foundation. United Nations Headquarters consolidated the other 10 funds with the escrow-Iraq fund, the United Nations Development Programme fund and technical cooperation activities executed by the United Nations for offices away from Headquarters.

The Board's main findings are as follows:

(a) The presentation of the financial statements for the biennium 2000-2001 improved from the previous biennium, but resulted in a restatement of accounts;

(b) From a sample of 20 operationally completed projects, 10 projects had not been financially closed as at 31 December 2001, which might result in charging an account of an operationally closed project for expenditures pertaining to other ongoing projects;

(c) Of 321 evaluation activities conducted by regional offices, 121 (38 per cent) evaluation reports were not available at the monitoring and evaluation unit of UN-Habitat, and substantive offices did not have required reports on file;

(d) UN-Habitat in northern Iraq has no banking services available, lacked delegated authority and duly designated certifying and approving officers, experienced an occasional shortage of funds and delays in payments and had inaccuracies and delays in financial reporting;

(e) UN-Habitat in northern Iraq did not comply with the provisions of the United Nations Procurement Manual in respect of establishing a contractor's classification and verifying the contractor's profile.

The Board made recommendations to improve compliance with the UN-Habitat Technical Cooperation Manual and the United Nations Procurement Manual, to maintain records and documentation for projects and to improve the financial management operations of UN-Habitat in northern Iraq.

A list of the Board's recommendations is included in paragraph 11.

A. Introduction

1. The Board of Auditors has audited the financial statements of the United Nations Habitat and Human Settlements Foundation for the biennium 2000-2001 in accordance with General Assembly resolution 74 (I) of 7 December 1946. The audit was conducted in conformity with article XII of the Financial Regulations and Rules of the United Nations and the annex thereto and the common auditing standards of the Panel of External Auditors of the United Nations, the specialized agencies and the International Atomic Energy Agency. The auditing standards require that the Board plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

2. The audit was conducted primarily to enable the Board to form an opinion as to whether the expenditures recorded in the financial statements for the period from 1 January 2000 to 31 December 2001 had been incurred for the purposes approved by the General Assembly; whether income and expenditures had been properly classified and recorded in accordance with the Financial Regulations and Rules; and whether the financial statements of the Foundation presented fairly the financial position as at 31 December 2001. The audit included a general review of financial systems and internal controls and a test examination of the accounting records and other supporting evidence to the extent the Board considered it necessary to form an opinion on the financial statements. The audit was carried out at the headquarters in Nairobi and the office in northern Iraq.

3. In addition to the audit of accounts and financial transactions, the Board carried out reviews under financial regulations 12.5. The reviews included the internal financial controls, programme management and, in general, the administration and management of the United Nations Human Settlements Programme (UN-Habitat).

4. The functions relating to human resources management and other staff-related services, common conference services, financial operations, general support services, including contracts and procurement, and information facilities were transferred to the United Nations Office at Nairobi with effect from 1 January 1996.

5. The Board continued its practice of reporting the results of specific audits to the Administration through management letters containing detailed observations and recommendations. This practice helped in maintaining an ongoing dialogue with the Administration on audit issues.

1. Previous recommendations not fully implemented

6. The present report covers matters that, in the opinion of the Board, should be brought to the attention of the General Assembly. The Board's observations on all matters contained in the report were communicated to the Administration, which confirmed the facts on which the Board's observations and conclusions were based and provided explanations and answers to the Board's queries. The report is divided into two parts, covering the audit of the financial issues and the management issues respectively.

7. The Board's main recommendations are presented in paragraph 11. The detailed findings of the audit are reported in paragraphs 12 to 49.

8. In accordance with section A, paragraph 7, of General Assembly resolution 51/225 of 3 April 1997, the Board noted that there was only one recommendation outstanding prior to the biennium 1996-1997. The Board had recommended in the bienniums 1990-1991,[1] 1992-1993[2] and 1994-1995[3] that the Administration identify weaknesses in project coordination and management control with a view to improving project implementation. The Board urges the Administration to implement this recommendation.

9. In accordance with General Assembly resolution 48/216 B of 23 December 1993, the Board also reviewed the measures taken by the Administration to implement the recommendations made in its report for the biennium ending 31 December 1999.[4] Details of the action taken and the comments of the Board are set out in the annex to the present report.

10. The General Assembly, in its resolution 52/212 B of 31 March 1998, accepted the recommendations of the Board of Auditors for improving the implementation of its recommendations approved by the Assembly subject to the provisions contained in the resolution. The Board's proposals, which were transmitted to the Assembly in a note by the Secretary-General (A/52/753, annex), included the following main elements:

(a) The need for specification of tables for the implementation of recommendations;

(b) The disclosure of office holders to be held accountable;

(c) The establishment of an effective mechanism to strengthen oversight in regard to the implementation of audit recommendations. Such a mechanism could be in the form of either a special committee comprising senior officials or a focal point for audit and oversight matters.

The Board noted that the Administration had generally complied with those requirements.

2. Recommendations

11. **The Board's recommendations are that the Administration**:

(a) **Financially close all operationally completed projects in accordance with the United Nations Centre for Human Settlements Technical Cooperation Manual to ensure that only records of ongoing projects are kept and that pertinent expenditures are charged only to those project accounts, and restrict access to those records to the senior officer to limit the risk of modification of closed projects (para. 28);**

(b) **Ensure that complete records and project documentation are maintained for the projects to facilitate effective monitoring, evaluation and financial and management reporting (para. 31);**

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[1] *Official Records of the General Assembly, Forty-seventh Session, Supplement No. 5H* (A/47/5/Add.8), chap. II.

[2] Ibid., *Forty-ninth Session, Supplement No. 5H* (A/49/5/Add.8), chap. II.

[3] Ibid., *Fifty-first Session, Supplement No. 5H* (A/51/5/Add.8), chap. II.

[4] Ibid., *Fifty-fifth Session, Supplement No. 5H* (A/55/5/Add.8), chap. II.

(c) Consider: (i) establishing banking services for the field office in northern Iraq to expedite the payment of salaries and entitlements, vendor accounts and operational expenses; (ii) delegating appropriate authority for payments to ensure that financial transactions are processed immediately; and (iii) implementing applicable Integrated Management Information System (IMIS) modules to reduce the risk of error and to improve the accuracy and timeliness of financial reporting (para. 37);

(d) Fast-track the housing programme to reduce the huge backlog in housing and basic infrastructure and services (para. 42);

(e) Strengthen the existing framework for the verification of a contractor's assets and holdings to ensure that reliable and accurate information is readily available to establish the contractor's profile (para. 45).

B. Financial issues

1. Financial overview

12. The United Nations Human Settlements Programme manages 32 funds, of which only 22 are included in the financial statements of the United Nations Habitat and Human Settlements Foundation. United Nations Headquarters in New York consolidates the remaining 10 funds with the escrow-Iraq fund, the United Nations Development Programme (UNDP) fund and technical cooperation activities executed by the United Nations for offices away from Headquarters.

13. In the biennium 2000-2001, total income of $27.52 million exceeded total expenditure of $20.81 million by $6.71 million before prior-period adjustments. The increase in income of $1.23 million (4.68 per cent) over the income reported in the biennium 1998-1999 was due mainly to the increase in contributions from public donors, interest and miscellaneous income.

14. The total expenditure decreased by $4.23 million (16.89 per cent) compared with the total expenditures of $25.04 million in the biennium 1998-1999. In the biennium 2000-2001, the total contributions of $25.13 million from Governments and public donors fully covered the total expenditure of $20.81 million.

15. Total assets decreased by $0.81 million (4.32 per cent), from $18.73 million in 1998-1999 to $17.92 million in 2000-2001. The net decrease is, for the most part, attributable to the decrease in contributions receivable from Governments and public donors, from $3.14 million to $0.47 million and $0.37 million to $0.12 million respectively.

16. The decrease in total liabilities of $7.97 million (48.72 per cent) from $16.36 million in 1998-1999 to $8.39 million in 2000-2001 was due largely to the decrease in unliquidated obligations from $6.28 million to $4.89 million and inter-fund accounts payable from $5.67 million to $0.62 million.

2. Financial statements

17. The United Nations Habitat and Human Settlements Foundation streamlined its presentation of the financial statements for the biennium ended 31 December 2001 to effect the closure of the Danish International Development Agency (Danida) trust fund during 2000 and the write-off of the United Nations Conference on Human

Settlements (Habitat II) at the close of the biennium ended 31 December 1999. The financial statements were reduced from a total of 11 in the biennium 1998-1999 to 3 in the biennium 2000-2001, namely: (a) a combined statement of income and expenditure and changes in fund balances; (b) a combined statement of assets, liabilities, reserves and fund balances; and (c) a statement of cash flows.

18. The Board noted that accounts in the comparative statements for the biennium 1998-1999 have been regrouped in the comparative statements for the biennium 2000-2001. There was no disclosure made in the financial statements in respect of the restatement of the accounts, although the net financial position is consistent with the prior years. This disclosure is required under paragraph 17 of the United Nations system accounting standards.

19. **The Board recommends that the Administration disclose the reclassification of the 1998-1999 accounts in the notes to the financial statements, in compliance with the United Nations system accounting standards.**

3. United Nations system accounting standards

20. The Board assessed the extent to which the financial statements of the United Nations Habitat and Human Settlements Foundation for the biennium 2000-2001 conformed to the United Nations system accounting standards. The review indicated that the presentation of the financial statements was generally consistent with those standards, except in respect of the reclassification of the 1998-1999 accounts to conform to the current presentation.

4. Reporting of trust fund receivable

21. A review of the contributions receivable from Governments (earmarked contributions) revealed a difference of $1.39 million between the beginning balance of earmarked contributions (unpaid pledges as at 1 January 2000) as at 31 December 2001, as shown in schedule 2.2, and the ending balance of the same account as at 31 December 1999, as shown in schedule 2.2 of the report for the biennium 1998-1999.[5]

22. The Board noted that the difference represented the unpaid pledge of Danida as at 1 January 2000, which was not reflected under earmarked pledges but reported separately in the financial report and audited financial statements for the biennium ended 31 December 1999. The Administration ceased reporting the Danida pledge separately and incorporated its pledge receivable into the earmarked contributions schedule, since projects specifically funded by Danida were operationally closed on 31 December 1999 and financially closed on 31 December 2000. Following the recommendation of the Board, the Administration included in note 4 to the financial statements a disclosure on the change in the presentation of the Danida earmarked contribution during the biennium 2000-2001, in compliance with paragraph 17 of the United Nations systems accounting standards.

5. Write-off of losses of cash, receivables and property

23. For the biennium 2000-2001, the Administration had written off long-outstanding voluntary contributions receivable from Governments dating from 1984 to 1993 in the amount of $197,269. In addition, a total amount of $149,991

[5] Ibid., chap. V.

comprising uncollectable receivables dating from 1989 to 1999 had been written off against the provision established in 1999. Those receivables pertained to travel advances and refunds, overpayments, staff and non-staff costs, salary advances, petty cash and miscellaneous transactions.

6. Ex gratia payments

24. The Administration informed the Board that no ex gratia payments had been made during the biennium 2000-2001.

C. Management issues

1. Programme management

Financial completion of operationally closed projects

25. The United Nations Centre for Human Settlements Technical Cooperation Manual (para. 1,707) states that a financially completed project is an operationally completed project for which all financial transactions have been recorded, the project account closed and a final project revision approved. All projects are to be financially completed within 12 months of the date of their operational completion.

26. The Board reviewed a sample of 20 operationally completed projects (valued at $1,800,751) and noted that 10 (valued at $1,021,771) had not been financially completed as at 31 December 2001. Those projects were not closed in IMIS, and only two had had final project revisions made as at 31 December 2001. The Board also noted a case of an operationally closed project that was erroneously charged with expenditures of an active project.

27. The Board is concerned that errors may be committed in charging the account of an operationally closed project for expenditures pertaining to other ongoing projects. The Administration confirmed that operationally closed projects with project codes or numbers closely resembling those of active projects may be erroneously charged in IMIS. The Administration also attributed the delayed closure of projects to the introduction of IMIS in July 2001 and the subsequent year-end closure.

28. **The Board recommends that the Administration financially close all operationally completed projects in accordance with the Technical Cooperation Manual to ensure that only records of ongoing projects are kept and that pertinent expenditures are charged only to those project accounts and that it restrict access to those records to the senior officer to limit the risk of modification of closed projects.** The Administration informed the Board that all concerned staff would be instructed to financially close all operationally closed projects before 31 December 2002 in accordance with the Technical Cooperation Manual.

Database development

29. An interim review of the information systems in April 2001 revealed that the Administration did not maintain a database of results of evaluations conducted on the projects implemented by the regional offices. Following the recommendation of the Board, the Administration developed an evaluation database that should serve as

a mechanism for disseminating lessons learned and for broadening the knowledge base for future development interventions. Moreover, data extracted from evaluation reports for the biennium 2000-2001 had already been entered into the database.

Project documentation

30. The Board's review of the adequacy of project documentation in April 2001 disclosed that of the 321 evaluation activities conducted by the regional offices, 121 (38 per cent) evaluation reports were not available at the Monitoring and Evaluation Unit of UN-Habitat. The Administration attributed the absence of the evaluation reports to the failure of the regional offices to furnish the Unit with copies of reports on evaluations conducted. The Board also noted that in five projects sampled the substantive office did not have on file the reports required, such as quarterly financial reports and combined delivery reports.

31. **The Board recommends that the Administration ensure that complete records and project documentation are maintained for the projects to facilitate effective monitoring, evaluation and financial and management reporting.**

32. The Administration commented that the Monitoring and Evaluation Unit maintained an inventory of evaluations undertaken or planned for UN-Habitat projects and programmes and archived available reports. The Administration further stated that the recommendation would be implemented as part of the development of the evaluation database and as part of an overall review of the UN-Habitat archiving system.

2. UN-Habitat in northern Iraq

Fund utilization and financial reporting system

33. Since no banking services are available in Erbil, Iraq, UN-Habitat headquarters at Nairobi and the UNDP Baghdad office made an arrangement to utilize the latter's banking facilities either in Baghdad or Amman to channel the release and disbursement of funds. Under the arrangement, custom-made access databases have been installed in Erbil and its field offices in Dohouk and Sulemaniyeh to record financial transactions and to prepare monthly summaries of expenses. Programme implementation for phases I to VIII, as at 31 December 2001, amounted to $520 million in terms of allocation from oil sales reported in the United Nations escrow-Iraq account.

34. The lack of delegated authority to UN-Habitat in northern Iraq required the processing of financial transactions such as payroll and other staff emoluments by the UNDP Baghdad office or UN-Habitat in Nairobi. Also, all financial reports prepared and submitted by the finance office in Erbil, including those from the field units, are sent to UNDP in Baghdad for manual processing and encoding together with the original copies of the disbursement vouchers and the source documents for transmittal to UN-Habitat in Nairobi through the inter-office voucher system.

35. Since the payroll is prepared by the UNDP Baghdad office, delays in payment were experienced, up to a maximum of four weeks. Entitlements for international staff, such as travel claims, family visits and home leave, were processed and paid for either by UN-Habitat in Nairobi or through the UNDP Baghdad office. Undue delays in financial reporting were incurred since transactions had to be processed in the field offices and sent to the core team in Erbil, then to the UNDP Baghdad office and finally to UN-Habitat in Nairobi.

36. The UNDP Baghdad office occasionally experienced a shortage of funds for replenishment, and this affected the timely delivery of cash to fund operations. Voluminous paperwork was evident, as each field office and each level of review in Baghdad and Nairobi made a copy of each document for payments made. Moreover, the manual processing of the financial reports and transactions made data capture susceptible to errors that could have a material effect on the accuracy and reliability of the financial accounts.

37. **The Board recommends that the Administration consider: (a) establishing banking services for the field office in northern Iraq to expedite the payment of salaries and entitlements, vendor accounts and operational expenses; (b) delegating appropriate authority for payments to ensure that financial transactions are processed immediately; and (c) implementing applicable IMIS modules to reduce the risk of errors and to improve the accuracy and timeliness of financial reporting.**

38. The Administration commented that as banking services are not available in northern Iraq, UN-Habitat could consider establishing such services only in Amman, a move that would create other difficulties. UN-Habitat is working with the United Nations Office at Nairobi to implement a phased delegation of authority to the field, taking account of the capacity of the settlement rehabilitation programme to handle such authority. The Administration will review with the United Nations Office at Nairobi the most appropriate information technology solutions for the field for recording and reporting financial transactions in northern Iraq.

Programme performance evaluation

39. The Board reviewed the activities in northern Iraq and noted that, as at 31 December 2001, UN-Habitat provided 21,890 housing units between 1997 and 2001 with complementary basic infrastructure and services. Based on a survey conducted by UN-Habitat in September 2001, 122,471 new housing units and 206,909 housing renovations and/or extensions were urgently needed. The survey and another urban sector review further indicated that more than 85 per cent of internally displaced persons, a majority of which are vulnerable, currently lived in urban areas, and that as much as 45 per cent of the population lived under the poverty line.

40. The Board noted that UN-Habitat did not have a programme of work prepared from 1997 to 2001, which should have included the major objectives, selected themes, planned activities and outputs, key performance indicators and parameters for programme implementation, monitoring and evaluation. Thus, the effectiveness of monitoring and evaluation of programme implementation could not be ascertained.

41. The Administration commented that efforts had been continuing since the latter part of 2000 to reorient its activities towards a more sustainable and planned approach, starting with the creation of the Planning and Programming Unit in May 2001 and the adoption of a double-track approach. A set of measures to streamline project design and implementation is being put into place, and the issue of operational costs is being addressed.

42. **The Board recommends that the Administration fast-track the housing programme to reduce the huge backlog in housing and basic infrastructure and services.** UN-Habitat informed the Board that planning for a fast-track housing programme was under way.

Contract evaluation

43. The field offices had difficulty establishing a contractor's classification and confirming the contractor's representation of their cash and currency holdings, since banking services are not available in Erbil; verifying the existence and ownership of accounts in foreign banks declared by contractors; establishing the ownership of contractors' equipment since, according to UN-Habitat, it is a widely known practice in the local construction industry to window-dress the assets of the company by claiming ownership of major equipment actually under lease or borrowed from others.

44. The bid-opening process lacked transparency because of the unavailability of records to indicate the participation of the bidders in the process and to show that the unsuccessful participants had been duly informed about the results of the bidding. Management explained that an office policy was conceived in 1999 to stop the attendance of contractors because of security considerations.

45. **The Board recommended that the Administration strengthen the existing framework for the verification of a contractor's assets and holdings to ensure that reliable and accurate information is readily available to establish the contractor's profile, in accordance with the United Nations Procurement Manual.**

46. The Administration commented that a contractor's classification was already in place in two of the three field offices and that the core team was in the process of harmonizing the system in the three field offices.

3. Cases of fraud and presumptive fraud

47. The Administration reported three cases of fraud during the biennium 2000-2001. In November 1999 and February 2000, two fraudulent payments, of $9,849 and $8,730, were made through the UNDP country office in Kampala based on forged financial authorizations.

48. The Office of Internal Oversight Services investigation concluded that the fraud did not originate from UN-Habitat or the United Nations Office at Nairobi. The case has been closed and the United Nations Office at Nairobi has issued an administrative instruction that payment orders to UNDP offices should be accompanied by supporting documentation.

49. The third case reported is a fraudulent application for residential security claims involving $4,950 (381,514.40 Kenya shillings) for the period from October 1996 to October 1999. A UN-Habitat staff member submitted fraudulent documents for the reimbursement of claims in respect of a day guard. The Office of Internal Oversight Services report was submitted to the management of the United Nations Office at Nairobi for transmission to the Office of Human Resources Management in New York, in accordance with administrative instruction ST/AI/371. No amount has been recovered, pending a review of the report by the Office of Human Resources Management.

D. Acknowledgement

50. The Board of Auditors wishes to express its appreciation for the cooperation and assistance extended to its auditors by the Executive Director, her officers and members of their staff.

(*Signed*) Shauket A. **Fakie**
Auditor-General
Republic of South Africa

(*Signed*) Guillermo N. **Carague**
Chairman
Philippine Commission on Audit

(*Signed*) François **Logerot**
First President
Court of Accounts of France

27 June 2002

Annex

Follow-up on action taken to implement the recommendations of the Board of Auditors in its report for the biennium ended 31 December 1999[a]

1. The Board has followed up on the action taken by the Administration to implement the Board's recommendations made in its report for the biennium ended 31 December 1999. Table A.1 summarizes the implementation of all the previous recommendations, and table A.2 details those recommendations under implementation which require further comments from the Board.

2. Of the four audit recommendations contained in the report of the Board of Auditors on the accounts of the United Nations Habitat and Human Settlements Foundation for the biennium ended 31 December 1999, one (25 per cent) was fully implemented and three (75 per cent) were under implementation.

Table A.1
Summary of status of implementation of recommendations for the biennium 1998-1999

Topic	*Implemented*	*Under implementation*	*Not implemented*	*Total*
A. Financial issues				
United Nations system accounting standards — disclosure of accounts receivable and accounts payable	para. 14	-	-	-
Subtotal				
Number	**1**	-	-	**1**
Per cent	**100**	-	-	**100**
B. Management issues				
Programme management — expenditure control	-	para. 22	-	-
Human resources management — roster of consultants	-	para. 29 para. 31	-	-
Subtotal				
Number	-	**3**	-	**3**
Per cent	-	**100**	-	**100**
Total				
Number	**1**	**3**	-	**4**
Per cent	**25**	**75**	-	**100**

[a] *Official Records of the General Assembly, Fifty-fifth Session, Supplement No. 5H* (A/55/5/Add.8), chap. II.

Table A.2
Details on previous recommendations under implementation or not implemented for the biennium 1998-1999

Management			
Component/area of concern	*Recommendation*	*Specific management action as at 31 March 2002*	*Comments of the Board*
Programme management — expenditure control, para. 22	The Foundation should apply strict expenditure control over each trust fund and project to ensure that expenditures do not exceed the authorized limits of allotments in accordance with existing rules.	The Administration, in close coordination with the United Nations Office at Nairobi, has improved its project management system with new procedures set in place and enhanced by the introduction of IMIS in July 2001. These ensure strict expenditure control and provide detailed financial information for the Programme Support Division and the programme managers.	Under implementation. IMIS provides modalities for expenditure control and financial information, but overexpenditures have been noted on some projects under the Urban Secretariat, Programme Support Division, Urban Development Branch, and the Regional Office for Africa and the Arab States. The Board will keep the matter under review in the next audits.
Human resources management — selection of consultants; terms of reference of consultants, para. 29	The Foundation should comply fully with the comprehensive guides for the use of consultants, as accepted by the General Assembly.	The Administration continues to be committed to ensuring that consultants are selected competitively and in accordance with established United Nations guidelines. At the initiative of the United Nations Office at Nairobi Human Resources Management Service, all programme managers have been provided with administrative instruction ST/AI/1999/7 on the use of consultants and individual contractors and have been reminded that the instructions should be strictly enforced.	Under implementation. The Board will keep the matter under review in the next audits.
Roster of consultants, para. 31	The Administration should update the roster of consultants and provide it to the United Nations Office at Nairobi to facilitate the development of a computerized central roster of consultants.	The Administration is in the process of updating its roster of consultants to make it more usable and comprehensive. Discussions are under way with the United Nations Office at Nairobi to make the roster compatible with its roster. Financial and staffing constraints make it difficult to maintain the roster, but this may be addressed as soon as additional resources are identified.	Under implementation. The Board will keep the matter under review in the next audits.

Chapter III
Audit opinion

We have audited the accompanying financial statements comprising statements I to III and the schedules and supporting schedules 1.1 to 3 of the United Nations Habitat and Human Settlements Foundation for the biennium ended 31 December 2001. The financial statements are the responsibility of the Executive Director of the United Nations Human Settlements Programme. Our responsibility is to express an opinion on the financial statements based on our audit.

We conducted our audit in accordance with the common auditing standards of the Panel of External Auditors of the United Nations, the specialized agencies and the International Atomic Energy Agency. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis and as considered by the Board of Auditors to be necessary in the circumstances, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Executive Director, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for the audit opinion.

In our opinion, the financial statements present fairly, in all significant respects, the financial position as at 31 December 2001 and the results of operations and cash flows for the period then ended in accordance with the Organization's stated accounting policies as set out in note 2 to the financial statements, which were applied on a basis consistent with that of the preceding financial period.

Further, in our opinion, the transactions of the United Nations Habitat and Human Settlements Foundation that we have tested as part of our audit have, in all significant respects, been in accordance with the Financial Regulations and Rules and legislative authority.

In accordance with article XII of the Financial Regulations, we have also issued a long-form report on our audit of the financial statements on the United Nations Human Settlements Programme.

(*Signed*) Shauket A. **Fakie**
Auditor-General, Republic of South Africa

(*Signed*) Guillermo N. **Carague**
Chairman, Philippine Commission on Audit

(*Signed*) François **Logerot**
First President, Court of Accounts of France

27 June 2002

Chapter IV
Certification of the financial statements

31 March 2002

I certify that the appended financial statements of the United Nations Habitat and Human Settlements Foundation, including associated trust funds and other related accounts, numbered I to III, are correct.

(*Signed*) Anna Kajumulo **Tibaijuka**
Executive Director
United Nations Human Settlements Programme

Statement I

United Nations
Habitat and Human Settlements Foundation

Combined statement of income and expenditure and changes in fund balance
for the biennium ended
31 December 2001
(United States dollars)

Income	Reference	Foundation	Foundation Programme Support Costs	Danida	All funds eliminations	Combined 2001	Combined 1999
Contributions from Governments	Schedule 2.2	16,793,439	-	-	-	16,793,439	18,374,688
Contributions from public donors		8,336,522	-	-	-	8,336,522	6,906,225
Income from services rendered		-	1,464,925	-	(1,464,925)	-	-
Interest income		1,799,293	65,144	63,296	-	1,927,733	900,780
Miscellaneous income		606,481	-	-	-	606,481	209,778
Gain/(loss) on exchange		(146,370)	(10)	(1,621)	-	(148,001)	(97,927)
Total income		**27,389,365**	**1,530,059**	**61,675**	**(1,464,925)**	**27,516,174**	**26,293,544**
Expenditure							
Programme activities	Schedule 1.1	5,710,045	-	-	-	5,710,045	4,245,561
Project activities: Earmarked	Schedules 1.3 and 1.5	13,863,510	-	(305,781)	(1,464,925)	12,092,804	18,624,029
Non-earmarked	Schedule 1.2	1,806,476	-	-	-	1,806,476	463,674
Programme support costs	Schedules 1.4	-	1,199,236	-	-	1,199,236	1,710,575
Total expenditure		**21,380,031**	**1,199,236**	**(305,781)**	**(1,464,925)**	**20,808,561**	**25,043,839**
Excess of income over expenditure		6,009,334	330,823	367,456	-	6,707,613	1,249,705
Prior period adjustments		(79,834)	(676,129)	781,651	-	25,688	(3,069,272)
Net excess/(shortfall) of income over expenditure		**5,929,500**	**(345,306)**	**1,149,107**	-	6,733,301	(1,819,567)
Savings on, or cancellation of, prior period obligations	Note 2 (h) (viii)	163,833	-	-	-	163,833	363,266
Transfers from other funds		261,270	-	-	-	261,270	-
Transfer to operational reserve for Special Account for Programme Support Costs	Note 2 (m)	-	-	-	-	-	(257,915)
Transfer from Special Account for Programme Support Costs		2,289,302	(2,289,302)	-	-	-	-
Fund balances at beginning of period		(378,562)	2,634,608	(1,149,107)	-	1,106,939	2,821,153
Fund balances at end of period		**8,265,343**	-	-	-	**8,265,343**	**1,106,939**
Earmarked fund reserves		2,797,364	-	-	-	2,797,364	-
Fund balance		5,467,979	-	-	-	5,467,979	-
Reserves and fund balances		**8,265,343**	-	-	-	**8,265,343**	**1,106,939**

United Nations
Habitat and Human Settlements Foundation

Combined statement of assets, liabilities, reserves and fund balance as at
31 December 2001
(United States dollars)

Assets	Reference	Foundation	Foundation Programme Support Costs	Danida (Note 4 (a)	All funds eliminations	Combined 2001	Combined 1999
Cash and term deposits	Schedule 3	14,590,667	2,106,314	-	-	16,696,981	14,345,118
Contributions receivable from Public Donors		124,875	-	-	-	124,875	374,345
Contributions receivable from Governments	Schedule 2.1	472,406	-	-	-	472,406	3,141,158
Provision for delays in collection of contributions		-	-	-	-	-	(220,474)
Inter-fund receivable		1,036,268	-	-	(1,036,268)	-	-
Other accounts receivable	Note 4 (a)	433,248	2,507	-	-	435,755	1,026,010
Deferred charges	Note 4 (b)	188,162	-	-	-	188,162	60,853
Total assets		**16,845,626**	**2,108,821**	**-**	**(1,036,268)**	**17,918,179**	**18,727,010**
Liabilities							
Unliquidated obligations		4,849,068	43,356	-	-	4,892,424	6,278,947
Inter-fund payable	Note 5		1,656,843	-	(1,036,268)	620,575	5,669,838
Provision for uncollectable accounts	Note 8	-	-	-	-	-	739,073
Other accounts payable	Note 4 (c)	2,011,674	150,707	-	-	2,162,381	3,671,635
Deferred Credits		716,878	-	-	-	716,878	-
Total liabilities		**7,577,620**	**1,850,906**	**-**	**(1,036,268)**	**8,392,258**	**16,359,493**
Net assets		**9,268,006**	**257,915**	**-**	**-**	**9,525,921**	**2,367,517**
Fund balance and reserves							
Financial reserve		1,002,663	-	-	-	1,002,663	1,002,663
Operational reserve		-	257,915	-	-	257,915	257,915
Earmarked fund reserves		2,797,364	-	-	-	2,797,364	-
Cumulative surplus	Note 7	5,467,979	-	-	-	5,467,979	1,106,939
Total fund balance and reserves		**9,268,006**	**257,915**	**-**	**-**	**9,525,921**	**2,367,517**

United Nations
Habitat and Human Settlements Foundation

Statement III

Statement of cash flows for the biehnium ended 31 December 2001
(United States dollars)

Cash flows from operating activities	Foundation	Foundation Programme Support Costs	Danida	All funds eliminations	Combined 2001	Combined 1999
Net excess/(shortfall) of income over expenditure	**5,929,500**	**(345,306)**	**1,149,107**	**-**	**6,733,301**	**221,533**
Decrease/(increase) in contributions receivable	1,525,464	-	1,392,758	-	**2,918,222**	**(160,063)**
Decrease in provision for delays in collection of contributions	(220,474)	-	-	-	**(220,474)**	**(2,341)**
Decrease/(increase) in other accounts receivable	414,880	(2,492)	177,867	-	**590,255**	**411,513**
(Increase)/decrease deferred charges	(157,906)	-	30,597	-	**(127,309)**	**93,280**
Increase/(decrease) in contributions in respect of future years	-	-	-	-	-	**(2,659,773)**
Increase/(decrease) in unliquidated obligations	135,495	(182,217)	(1,339,801)	-	**(1,386,523)**	**806,322**
(Decrease)/increase in provision for uncollectable accounts	(739,073)	-	-	-	**(739,073)**	**739,073**
(Decrease)/increase in accounts payable	(827,909)	132,805	(97,272)	-	**(792,376)**	**137,235**
Less: Interest income	(1,799,293)	(65,144)	(63,296)	-	**(1,927,733)**	**(900,780)**
Net cash flow from operating activities	**4,260,684**	**(462,354)**	**1,249,960**	**-**	**5,048,290**	**(1,314,001)**
(Decrease)/increase in interfund payable/(receivable)	(7,458,693)	4,792,826	(2,383,396)	-	**(5,049,263)**	**6,826,674**
Plus: Interest income	1,799,293	65,144	63,296	-	**1,927,733**	**900,780**
Net cash flow from investing and financing activities	**(5,659,400)**	**4,857,970**	**(2,320,100)**	**-**	**(3,121,530)**	**7,727,454**
Cash flows from other sources						
Savings in prior period obligations	163,833	-	-	-	**163,833**	**363,268**
Transfers from other funds	261,270	-	-	-	**261,270**	-
Transfer from Special Account for Programme Support Costs	2,289,302	(2,289,302)	-	-	-	-
Habitat II Conference write off	-	-	-	-	-	**(2,041,100)**
Net cash flow from other sources	**2,714,405**	**(2,289,302)**	**-**	**-**	**425,103**	**(1,677,832)**
Net increase/(decrease) in cash and bank balances	**1,315,689**	**2,106,314**	**(1,070,140)**	**-**	**2,351,863**	**4,735,621**
Cash and bank balances at 1 January 2000	13,274,978	-	1,070,140	-	**14,345,118**	**9,609,497**
Cash and bank balances at 31 December 2001	**14,590,667**	**2,106,314**	**-**	**-**	**16,696,981**	**14,345,118**

United Nations
Habitat and Human Settlements Foundation

Schedule 1.1

Programme Activities

Status of allocations for the biennium ended 31 December 2001
(United States dollars)

Expenditure	Allocation	Disbursements	Unliquidated Obligations	Total	Unencumbered Balance
Experts, other personnel costs	4,680,000	3,964,390	76,669	4,041,059	638,941
Travel	157,600	138,727	18,873	157,600	-
Other operating costs	1,459,500	1,033,887	425,021	1,458,908	592
Acquisitions	52,500	18,159	34,319	52,478	22
Total	**6,349,600**	**5,155,163**	**554,882**	**5,710,045**	**639,555**
Executive direction and management	820,000	712,049	94,729	806,778	13,222
Other programme activities	5,529,600	4,443,114	460,153	4,903,267	626,333
Total	**6,349,600**	**5,155,163**	**554,882**	**5,710,045**	**639,555**

Schedule 1.2

United Nations
Habitat and Human Settlements Foundation

Non-earmarked Project Activities

Status of allocations for the biennium ended 31 December 2001
(United States dollars)

Expenditure	Allocation	Disbursements	Unliquidated Obligations	Total	Unencumbered Balance
Experts, other personnel costs	1,300,430	701,750	354,982	1,056,732	243,698
Subcontracts	374,863	212,311	45,212	257,523	117,340
Travel	153,007	153,007		153,007	-
Acquisitions	58,331	47,541	3,972	51,513	6,818
Other operating costs	382,787	239,208	48,493	287,701	95,086
Total	**2,269,418**	**1,353,817**	**452,659**	**1,806,476**	**462,942**

Schedule 1.3

United Nations
Habitat and Human Settlements Foundation

Earmarked Project Activities

Status of allocations for the biennium ended 31 December 2001
(United States dollars)

Expenditure	Allocation	Disbursements	Unliquidated Obligations	Total	Unencumbered Balance
Experts, other personnel costs	9,225,892	6,150,771	657,366	6,808,137	2,417,755
Subcontracts	2,702,810	364,836	1,264,526	1,629,362	1,073,448
Travel	1,759,376	885,184	284,004	1,169,188	590,188
Acquisitions	446,574	297,604	56,221	353,825	92,749
Other operating costs	3,492,778	1,559,763	843,131	2,402,894	1,089,884
Programme Support Costs	1,570,000	1,500,104	-	1,500,104	69,896
Total	**19,197,430**	**10,758,262**	**3,105,248**	**13,863,510**	**5,333,920**

Schedule 1.4

United Nations
Habitat and Human Settlements Foundation

Special Account for Programme Support Costs

Status of allocations for the biennium ended 31 December 2001
(United States dollars)

Expenditure	Allocation	Disbursements	Unliquidated Obligations	Total	Unencumbered Balance
Experts, other personnel costs	1,472,300	1,089,710	11,827	1,101,537	370,763
Training	1,000	1,000	-	1,000	-
Other operating costs	96,700	63,809	32,890	96,699	1
Total	1,570,000	1,154,519	44,717	1,199,236	370,764

United Nations Habitat Human Settlements Foundation

Schedule 1 5

Danida Trust Fund

Status of allocations for the biennium ended 31 December 2001
(United States dollars)

Danish International Development Agency/United Nations Centre for Human Settlements
multi bilateral agreement for project activities

Expenditure	Allocation	Disbursements	Unliquidated Obligations	Total	Unencumbered Balance
Experts, other personnel costs	-	(122,354)	-	(122,354)	122,354
Travel	-	5,314	-	5,314	(5,314)
Subcontracts	-	122	-	122	(122)
Training	-	(30,504)	-	(30,504)	30,504
Acquisitions	-	(33,017)	-	(33,017)	33,017
Other operating costs	-	(90,163)	-	(90,163)	90,163
Programme support costs	-	(35,179)	-	(35,179)	35,179
Total	**-**	**(305,781)**	**-**	**(305,781)**	**305,781**

United Nations Habitat and Human Settlements Foundation

Schedule 2.1

Status of non-earmarked contributions and unpaid pledges
as at 31 December 2001
(United States dollars)

Country	Unpaid pledges at 1 January 2000	Adjustments of prior pledges	Collections of prior pledges	Pledges For 2000 and 2001	Collections of 2000 and 2001 pledges	Unpaid pledges for current and prior years
Algeria	-	-	-	10,000	(10,000)	-
Argentina	-	-	-	6,000	(6,000)	-
Austria	-	-	-	129,123	(65,000)	64,123
Bangladesh	5,200	(5,200)	-	3,000	(1,500)	1,500
Barbados	1,000	(1,000)	-	3,000	(3,000)	-
Belgium	235,963	-	(235,963)	-	-	-
Bhutan	2,500	-	-	550	-	3,050
Brazil	-	-	-	20,000	-	20,000
Burkina Faso	-	-	-	2,795	-	2,795
Burundi	877	(877)	-	-	-	-
Cameroon	40,224	(40,224)	-	28,571	(6,154)	22,417
Chile	15,000	-	(15,000)	10,000	-	10,000
China	18,116	-	(18,116)	-	-	-
Colombia	12,000	-	(12,000)	24,000	(24,000)	-
Congo	5,897	(5,897)	-	-	-	-
Croatia	-	-	-	5,000	(5,000)	-
Cyprus	-	-	-	15,000	(15,000)	-
Czech Rep.	-	-	-	106,598	(106,598)	-
Egypt	-	-	-	5,872	-	5,872
Fiji	-	-	-	5,100	(5,100)	-
Finland	-	-	-	789,781	(789,781)	-
France	-	-	-	245,053	(245,053)	-
Gabon	60,811	(60,811)	-	-	-	-
Germany	-	-	-	135,728	(135,728)	-
Ghana	-	-	-	5,000	-	5,000
Greece	-	-	-	16,000	(16,000)	-
Guyana	1,029	-	-	-	-	1,029
India	18,529	-	(18,529)	200,000	(200,000)	-
Italy	-	-	-	1,121,625	(1,121,625)	-
Jamaica	16,521	-	(16,521)	-	-	-
Japan	237,500	-	(237,500)	475,000	(475,000)	-
Kenya	44,000	-	(44,000)	88,000	(31,933)	56,067
Korea	-	-	-	30,000	(30,000)	-
Luxembourg	-	-	-	95,495	(46,654)	48,841
Madagascar	-	-	-	15,980	-	15,980
Malawi	9,381	(4,381)	(5,000)	-	-	-
Malaysia	10,000	(10,000)	-	20,000	(20,000)	-
Morocco	-	5,000	(5,000)	5,000	-	5,000
Namibia	-	-	-	13,706	(13,706)	-
Netherlands	-	-	-	787,173	(787,173)	-
New Hebrides	500	-	-	-	-	500
Nigeria	100,000	-	-	-	-	100,000
Norway	-	-	-	546,706	(546,706)	-
Pakistan	5,000	(5,000)	-	11,985	(11,985)	-
Panama	-	-	-	1,000	(1,000)	-
Philipines	1,582	(1,582)	-	-	-	-
Poland	-	-	-	20,000	(20,000)	-
Portugal	25,000	-	-	-	-	25,000
Romania	1,976		(1,661)	-	-	315
South Africa	-	-	-	8,406	(8,406)	-
Sri Lanka	-	-	-	25,000	(20,000)	5,000
Sudan	6,329	-	-	-	-	6,329
Sweden	-	-	-	1,299,963	(1,299,963)	-
Tanzania U. Rep.	988	-	-	6,289	-	7,277
Togo	1,450	(1,450)	-	-	-	-
Trinidad & Tobago	1,000	-	(1,000)	1,000	(1,000)	-
Tunisia	5,685	5	(5,690)	1,502	(1,502)	-
Uganda	-	-	-	4,626	(4,626)	-

United Nations Habitat and Human Settlements Foundation

Schedule 2.1

Status of non-earmarked contributions and unpaid pledges
as at 31 December 2001
(United States dollars)

Country	Unpaid pledges at 1 January 2000	Adjustments of prior pledges	Collections of prior pledges	Pledges For 2000 and 2001	Collections of 2000 and 2001 pledges	Unpaid pledges for current and prior years
United Kingdom	321,739	-	(321,739)	4,001,110	(4,001,110)	-
USA	-	-	-	500,000	(500,000)	-
Venezuela	-	-	-	43,195	-	43,195
Yemen	2,300	575	-	1,150	-	4,025
Yugoslavia	45,000	(45,000)	-	-	-	-
Zambia	-	-	-	10,000	-	10,000
Zimbabwe	7,199	(261)	(1,483)	3,636	-	9,091
Non-earmarked contributions	**1,260,296**	**(176,103)**	**(939,202)**	**10,903,718**	**(10,576,303)**	**472,406**

United Nations Habitat and Human Settlements Foundation

Schedule 2.2

Status of earmarked contributions and unpaid pledges
as at 31 December 2001
(United States dollars)

Country	Unpaid pledges at 1 January 2000	Adjustments of prior pledges	Collections of prior pledges	Pledges For 2000 and 2001	Collections of 2000 and 2001 pledges	Unpaid pledges for current and prior years
Belgium	-	-	-	856,469	(856,469)	-
Canada	-	-	-	194,912	(194,912)	-
China				148,393	(148,393)	-
Denmark (see below)	1,392,758	-	(1,392,758)	51,867	(51,867)	-
Egypt	6,000	-	(6,000)	-	-	-
France	-	10,632	(10,632)	395,900	(395,900)	-
Germany	-	78,110	(78,110)	182,401	(182,401)	-
Italy	16,485	(16,485)	-	380,459	(380,459)	-
Japan	237,500	-	(237,500)	475,000	(475,000)	-
Malawi	13,762	(13,762)	-	-	-	-
Netherlands	1,477	34,100	(35,577)	779,252	(779,252)	-
Norway	-	-	-	265,933	(265,933)	-
Russia	-	-	-	100,000	(100,000)	-
Spain	-	-	-	83,616	(83,616)	-
Sweden	-	-	-	1,106,715	(1,106,715)	-
Switzerland	38,900	(38,900)	-	305,774	(305,774)	-
United Kingdom	165,695	-	(165,695)	563,030	(563,030)	-
Zimbabwe	8,285	(8,285)	-	-	-	-
Earmarked contributions	**1,880,862**	**45,410**	**(1,926,272)**	**5,889,721**	**(5,889,721)**	**-**
Non-earmarked contributions (Sch 2.1)	**1,260,296**	**(176,103)**	**(939,202)**	**10,903,718**	**(10,576,303)**	**472,406**
Total Government contributions	**3,141,158**	**(130,693)**	**(2,865,474)**	**16,793,439**	**(16,466,024)**	**472,406**

Denmark

The brought forward pledge of US$1,392,758 from Denmark relates to a separate trust fund, within the Foundation, that was closed during the year 2000 and reported separately in the Financial Report and Statements for the first year of the biennium 2000-2001.

United Nations
Habitat and Human Settlements Foundation

Schedule 3

Convertible and non-convertible cash and term deposits as at 31 December 2001
(United States dollars)

		2001	1,999
Convertible currency	Reference		
Cash at banks and on hand		5,365,583	5,613,097
Term deposits	(a)	11,196,925	8,000,000
Total		**16,562,508**	**13,613,097**

Non-convertible currency	US$ equivalent	US$ equivalent
Indian Rupees	123,488	308,045
United States Dollars (restricted to use within Russia)	10,985	390,247
Other	-	33,729
Total	**134,473**	**732,021**
Total convertible and non-convertible cash and term deposits	**16,696,981**	**14,345,118**

Investment pool for Offices Away from Headquarters (OAH)

Book value	11,196,925
Market value	11,327,293
Unrealised profit	130,368

(a)

As of 1 July 2000 all new investments system-wide were placed in a joint investment pool for all Offices away from Headquarters (OAH). Treasury, UNHQ, is solely responsible for the investment policy and participating offices are only responsible for their own cash flow/liquidity planning. Treasury, UNHQ, invests in different securities, with varying due dates and interest rates. Hence, it is not practical to indicate due dates and interest rates againstthe investment pool for OAH, as has been done for investments outside the pool.

Notes to the financial statements

Note 1
United Nations Human Settlements Programme and its objectives

(a) On 16 December 1974, the General Assembly adopted resolution 3327 (XXIX), by which it created the United Nations Habitat and Human Settlements Foundation. On 19 December 1977, the Assembly adopted resolution 32/162, by which it established a secretariat (the United Nations Centre for Human Settlements (Habitat)) and a Commission on Human Settlements.

(b) The main objectives of the Foundation are:

(i) To assist countries and regions in increasing and improving their own efforts to solve human settlements problems;

(ii) To promote greater international cooperation in order to increase the availability of resources of developing countries and regions;

(iii) To promote the integral concept of human settlements and a comprehensive approach to human settlements problems in all countries;

(iv) To strengthen cooperation and co-participation in this domain among all regions;

(v) To ensure the harmonization of human settlements programmes planned and carried out by the United Nations system; to coordinate human settlements activities in the United Nations system, to keep them under review and to assess their effectiveness at the inter-secretariat level;

(vi) To supplement the resources of the regions in formulating and implementing human settlement projects when required;

(vii) To serve as the focal point for a global exchange of information about human settlements and to initiate public information activities on human settlements in cooperation with the Department of Public Information of the United Nations Secretariat;

(viii) To promote collaboration with and involvement of the world scientific community concerned with human settlements.

Note 2
Summary of significant accounting policies

(a) The accounts of the United Nations Human Settlements Programme are maintained in accordance with the Financial Regulations and Rules of the United Nations as adopted by the General Assembly. The rules are formulated by the Secretary-General as required under the regulations, including the special annex of the financial rules of the United Nations Human Settlements Programme and specific decisions of the Governing Council and administrative instructions. They also take fully into account the United Nations system accounting standards, as adopted by the Administrative Committee on Coordination. The Organization follows international accounting standard 1 on the disclosure of accounting policies, as modified and adopted by the Committee, as follows:

(i) Going concern, consistency and accrual are fundamental accounting assumptions. Where fundamental accounting assumptions are followed in financial statements, the disclosure of such assumptions is not required. If a fundamental accounting assumption is not followed, that fact should be disclosed together with the reasons;

(ii) Prudence, substance over form and materiality should govern the selection and application of accounting policies;

(iii) Financial statements should include clear and concise disclosure of all significant accounting policies that have been used;

(iv) The disclosure of the significant accounting policies used should be an integral part of the financial statements. These policies should normally be disclosed in one place;

(v) Financial statements should show comparative figures for the corresponding period of the preceding financial period;

(vi) A change in an accounting policy that has a material effect in the current period or that may have a material effect in subsequent periods should be disclosed together with the reasons. The effect of the change should, if material, be disclosed and quantified.

(b) The Organization's accounts are maintained on a fund accounting basis. Each fund is maintained as a distinct financial and accounting entity with a separate self-balancing double-entry group of accounts. Separate financial statements are prepared for each fund or for a group of funds of the same nature.

(c) The financial period of the Organization is a biennium consisting of two consecutive calendar years for all funds.

(d) Generally, income, expenditure, assets and liabilities are recognized on the accrual basis of accounting. For voluntary contribution income, the policy set out in paragraph h (i) below applies.

(e) The accounts of the Organization are presented in United States dollars. Accounts maintained in other currencies are translated into United States dollars at the time of the transaction at rates of exchange established by the Under-Secretary-General for Management. In respect of such currencies, the financial statements, prepared at such intervals as may be prescribed by the Controller under delegation of authority from the Under-Secretary-General for Management, shall reflect the cash, investments, unpaid pledges and current accounts receivable and payable in currencies other than the United States dollar, translated at the applicable United Nations rate of exchange in effect as at the date of the statement. In the event that the application of an actual exchange rate at the date of the statement would provide a valuation materially different from the application of the Organization's rate of exchange for the last month of the financial period, a footnote will be provided quantifying the difference.

(f) The Organization's financial statements are prepared on the historical cost basis of accounting and are not adjusted to reflect the effects of changing prices for goods and services.

(g) The regular budget of the United Nations meets part of the costs of the secretariat of the United Nations Centre for Human Settlements, established under

resolution 32/162 of 19 December 1977. Details of the expenditure may be found in the financial report and audited financial statements of the United Nations. They are not considered further in the present report.

(h) Income:

(i) Voluntary contributions from Member States and other donors are recorded as income on the basis of a written commitment to pay monetary contributions at specified times during the current financial period;

(ii) Income received under inter-organizational arrangements represents allocations of funding from agencies to enable the Organization to administer projects or other programmes on their behalf;

(iii) Allocations from other funds represent monies appropriated or designated from one fund for the transfer to and disbursement from another fund;

(iv) Income for services rendered includes reimbursements of staff member salaries and other costs that are attributable to providing technical and administrative support to other organizations;

(v) Interest income includes all interest earned on deposits in various bank accounts and investment income earned on marketable securities and other negotiable instruments. All realized losses and net unrealized losses on short-term investments are offset against investment income;

(vi) Miscellaneous income includes refunds of expenditures charged to prior periods, income from net gains resulting from currency translations, monies accepted for which no purpose was specified, uncashed cheques one year from their date of issuance, proceeds from the sale of surplus property and other sundry income;

(vii) Income relating to future financial periods is not credited to the current financial period and is recorded as deferred income, as referred to in paragraph (k) (ii) below;

(viii) Liquidation of prior-period obligations. Savings from the liquidation of prior-period obligations relating to programme costs are credited directly to the fund balances. Savings relating to project costs are credited to the project.

(i) Expenditure:

(i) Expenditures are incurred against authorized allotments. Total expenditures reported include unliquidated obligations and disbursements;

(ii) Expenditures incurred for non-expendable property are charged to the budget of the period when acquired and are not capitalized. The inventory of such non-expendable property is maintained at the historical cost;

(iii) Expenditures for future financial periods are not charged to the current financial period but are recorded as deferred charges, as referred to in paragraph j (iii) and (iv) below.

(j) Assets:

(i) Cash and term deposits comprise funds held in demand-deposit accounts and interest-bearing bank deposits;

(ii) The United Nations Headquarters cash pool comprises participating funds' share of the cash and term deposits, short-term investments and accrual of investment income, all of which are managed in the pool. The investments in the pool are similar in nature. Income earned on the investments of the cash pool and the costs associated with the operation of those investments are allocated to the participating funds. The share in the cash pool is reported separately in each of the participating funds' statements;

(iii) Deferred charges normally comprise expenditure items that are not properly chargeable to the current financial period. They will be charged as expenditure in a subsequent period. These expenditure items include commitments approved for future financial periods in accordance with financial rule 110.6. Such commitments are normally restricted to administrative requirements of a continuing nature and to contracts or legal obligations where long lead times are required for delivery;

(iv) For purposes of the balance sheet statements only, those portions of education grant advances that are assumed to pertain to the scholastic years completed as at the date of the financial statement are shown as deferred charges. The full amounts of the advances are maintained as accounts receivable from staff members until the required proofs of entitlement are produced, at which time the budgetary accounts are charged and the advances settled;

(v) Maintenance and repairs of capital assets are charged against the appropriate budgetary accounts. Furniture, equipment, other non-expendable property and leasehold improvements are not included in the assets of the Organization. Acquisitions are charged against budgetary accounts in the year of purchase. The value of non-expendable property is recorded in memorandum accounts and is disclosed in note 6.

(k) Liabilities, reserves and fund balances:

(i) Operating and other types of reserves are included in the totals for reserves and fund balances shown in the financial statements;

(ii) Deferred income includes pledged contributions for future periods and other income received but not yet earned;

(iii) The commitments of the Organization relating to prior, current and future financial periods are shown as unliquidated obligations. Current period obligations related to special accounts remain valid for 12 months following the end of the biennium to which they relate. Obligations for most technical cooperation activities remain valid for 12 months after the end of each calendar year.

(l) Financial reserve. As stated in rule 311.2 (b) of the financial rules of the Foundation, the purpose of the financial reserve is to guarantee the financial liquidity and integrity of the Foundation, to compensate for uneven cash flows and to meet such other similar requirements as may be decided upon by the Governing Council. The level of financial reserve is determined from time to time by the Governing Council, in accordance with paragraph 2 of Council resolution 2/2 of 4 April 1979, in which the Council authorized the Executive Director to set up the financial reserve in the amount of $281,600, covering the period from 1 January

1979 to 30 June 1980. The financial reserve was last adjusted in 1989 to its present level of $1,002,663, equivalent to 9.89 per cent of the total programme of work of the Foundation approved by the Commission for the biennium 1988-1989.

(m) Operational reserve. With regard to the special account for programme support costs and as stated in administrative instruction ST/AI/286, an operational reserve held at 20 per cent of the estimated annual programme support income is required to be held in a separate account at all times. This reserve is to protect against unforeseen shortfalls in delivery, inflation and currency adjustments or to liquidate legal obligations in case of the abrupt termination of activities financed from extrabudgetary resources.

(n) Earmarked fund reserve. Funds designated for specified project activities are not available for the non-earmarked project and programme expenditures of the Foundation.

(o) Contingencies. No provision is made in UN-Habitat for end-of-service benefits, including accrued annual leave, or for post-retirement benefits. However, provision to meet contingent liabilities for compensation payments under appendix D to the Staff Rules of the United Nations for the personnel financed from trust funds and the Foundation has been made and is calculated on the basis of 1 per cent of the net base pay. Full provision is made in the statements for all costs expected to arise from the termination of the Danish International Development Agency/United Nations Centre for Human Settlements multi-bilateral agreement for project activities. The resulting shortfall has been taken to reduce the reserves of the special account for programme support costs.

(p) UN-Habitat is a member organization of the United Nations Joint Staff Pension Fund, which was established by the General Assembly to provide retirement, death, disability and related benefits. The Pension Fund is a funded defined-benefit plan. The financial obligation of the Organization to the Fund consists of its mandated contribution at the rate established by the Assembly together with its share of any actuarial deficiency payments under article 26 of the Regulations of the Fund. Such deficiency payments are payable only if and when the Assembly has invoked article 26, following a determination that there is a requirement for deficiency payments based on an assessment of the actuarial sufficiency of the Fund as at the valuation date. As at the date of the current financial statements, the Assembly has not invoked this provision.

Note 3
Cash flow summary

Statement III is based on the indirect method of cash flow statements covered by international accounting standard 7.

Note 4
Foundation (statements I to III)

(a) Accounts receivable. The following is a comparison of the accounts receivable appearing in statement II as at 31 December 2001 and 1999:

	2001	1999
Voluntary pledges receivable		
Governments (excluding DANIDA)	472 406	1 748 400
DANIDA Trust Fund[a]	-	1 392 758
Subtotal	**472 406**	**3 141 158**
Other public donors	124 875	374 345
Subtotal	**597 281**	**3 515 503**
Provision for delays in collection of contributions	-	(220 474)
Subtotal	**597 281**	**3 295 029**
Other accounts receivable		
Staff members	341 502	560 657
Vendors	55 312	175 003
Other United Nations agencies	24 524	290 350
Others	14 417	-
Subtotal	**435 755**	**1 026 010**
Total	**1 033 036**	**4 321 039**

[a] The DANIDA Trust Fund receivable of $1,392,758 relates to a separate trust fund within the Foundation that was closed during 2000 and reported separately in the financial report and statements for the first year of the biennium 2000-2001.

(b) Deferred charges. The totals below provide a comparison of the amounts shown in statement II as deferred charges as at 31 December 2001 and 1999 (in United States dollars):

	2001	1999
Education grant advances	96 920	60 853
Other	91 242	-
Total	**188 162**	**60 853**

(c) Accounts payable. The following comparison of the accounts payable appears in statement II as at 31 December 2001 and 1999 (in United States dollars):

	2001	1999
Governments	32 190	-
Staff members	116 835	60 683
Vendors	336 826	628 980
Specialized agencies	36 207	-
Other United Nations agencies	1 628 819	2 981 972
Others	11 504	-
Total	**2 162 381**	**3 671 635**

Note 5
Inter-fund balances

The inter-fund accounts record transactions between the Foundation, trust funds, other special accounts and the United Nations General Fund, which are normally settled on a periodic basis. The agreed liability to the United Nations General Fund as at 30 June 2001 was settled before the implementation of the Integrated Management Information System.

Note 6
Non-expendable property

In accordance with United Nations accounting policies, non-expendable property is not included in the fixed assets of the Organization but is charged against the current appropriations when acquired. The following table shows the non-expendable property at UN-Habitat headquarters, its overseas offices and various UN-Habitat projects, according to the cumulative inventory records of the United Nations Office at Nairobi (in United States dollars):

	2001	*1999*
Office equipment	380 990	319 260
Transportation equipment	85 238	30 407
Radio and telecommunication equipment	109 898	21 120
Document and reproduction equipment	354	-
Audio-visual/photographic equipment	92 324	65 651
Furniture	7 171	-
Computer equipment	1 194 166	947 307
Maintenance equipment	1 387	1 083
Total	**1 871 528**	**1 384 828**

Note 7
Reserves and fund balances

The surplus account of UN-Habitat represents savings in the liquidation of obligations for prior periods, contributions from Member States and other designated income.

Note 8
Write-off of receivables and provision for uncollectable accounts

In accordance with the Financial Rules and after a full investigation, uncollectable receivables amounting to $149,991 have been written off against the provision established in 1999. In each case it was determined, in the light of the facts known at the time, that: (a) responsibility for the loss could not be fixed and attached to any United Nations official; (b) every effort had been made to collect the amount; and (c) further collection efforts would have been fruitless. The balance of the provision, $490,129, was released to the prior-year adjustments account.

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